

Title: Why welfare?

Source: Economist; 3/13/2004, Vol. 370 Issue 8366, p78, 1p, 1c

An important new book traces the links between politics, racial diversity and the generosity of the state

Nothing better encapsulates the different attitudes of America and Europe to the poor than a table towards the end of Alberto Alesina's and Edward Glaeser's remarkable book*, due to be published later this month. It compares the prevalence of three beliefs: that the poor are trapped in poverty; that luck determines income; and that the poor are lazy. The first is held by only 29% of Americans but by 60% of citizens of the European Union; the second, by 30% of Americans and 54% of Europeans; and the third, by contrast, by 60% of Americans and 24% of Europeans.

Mr Alesina and Mr Glaeser, both Harvard economists, are doing what the best in their profession do well these days: seeking to explain society not merely with conventional economic tools but with analysis of institutions, geography and social behaviour. They begin with the observation that America and Europe differ strikingly in their willingness to allow government to redistribute income from rich to poor. Government spending in the United States is about 30% of GDP; in continental Europe, where it includes most health-care spending, it is about 45%. Almost two-thirds of this spending is on welfare. Americans, by contrast, are much more likely to give money privately. They appear to have given \$691 per head in charitable donations in 2000, compared with contributions of \$141 in Britain and a mere \$57 in Europe as a whole.

What explains the difference in welfare systems? It is patently not true that European redistribution redresses greater pre-tax inequality: Americans' gross incomes vary more than Europeans'. Maybe America is less unequal than it seems, because today's poor are tomorrow's rich? No, actually: the authors point out that America's poor are just as trapped in poverty as Europe's, whereas the European middle class climb the social ladder as easily as their American counterparts. Maybe Europe's tax collectors are more efficient than America's? "Implausible," say the authors--one of whom, after all, is Italian by origin and so knows what a truly inefficient tax system looks like.

Instead, the authors advance two interesting explanations: politics and race. America's political structures differ from Europe's. They are older--not something most people on either side of the Atlantic usually realise--and more governed by conservative forces. Most countries in Europe have undergone turbulent political change in the past century; America has at least the bones of a structure created more than two

centuries ago. Europe's upheavals have installed proportional representation in most countries, a structure that has facilitated the growth of socialist and communist parties. "There is a general relationship between the age of institutions and their unfriendliness to the welfare state," they argue.

Geography also bolstered the power of labour in Europe and restrained it in America: in a small country like Belgium, labour unrest could have a much greater national impact than in a vast, dispersed country like the United States. So did the fact that Europe's countries saw a century of war, whereas America's geography and might protected it from invasion. Countries that saw war on their territory were more likely to acquire new political institutions, and ones that gave more power to the left.

Such institutional differences, the authors guess, are half the explanation for the contrasting approaches to poverty. But, they point out, institutions are "quite flexible and reflect different forces". Those economists who regard political and legal institutions as given, rather than examining the forces that create and sustain them, are missing something important.

And then there's race

The other half of the explanation lies in America's racial diversity. In spite of 20 years of unprecedented immigration, European countries, particularly smaller ones like Portugal and those of Scandinavia, are still highly racially homogenous. America, by contrast, has great diversity, which is especially wide in some states. In addition, the poor in America are disproportionately non-white. Non-Hispanic whites are 71% of America's population but only 46% of the poor.

Racial diversity in individual states is correlated with the generosity of welfare. For instance, the authors find that in 1990 Aid to Families with Dependent Children ranged from over \$800 per family per month in mainly white Alaska to less than \$150 in Alabama and Mississippi, where almost one-third of the population is black. Even after adjustment for inter-state differences in average incomes, the correlation with race remained strong. Across countries, too, racial diversity goes with low government spending on poverty relief.

The reason, argue the authors, is that "race matters", and they marshal statistical evidence, much of it from opinion surveys, to back this up. People are likely to support welfare if they live close to recipients of their own race; but are antipathetic if they live near recipients from another race. The divergent attitudes of Europeans and Americans to the

poor are underwritten by the fact that the poor in Europe tend to be ethnically the same as most other folk. In America, their skin is often a different colour.

The authors say that "political entrepreneurs", eager to use race as an excuse to turn the poor against redistribution, shape attitudes to race and to poverty. At different times, America has had its share. Is Europe immune? Look at the successes of the likes of Jörg Haider and Pim Fortuyn, and wonder. The recent evolution of Europe as a destination of mass migration, much more ethnically diverse than America's in most of the past century, will test the durability of the European welfare state.

* "Fighting Poverty in the US and Europe: A World of Difference". Oxford University Press, forthcoming

PHOTO (COLOR)

Copyright of The Economist is the property of Economist Newspaper Limited and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.

Source: The Economist, 3/13/2004, Vol. 370 Issue 8366, p78, 1p
Item: 12515778
